



TO: Chief Elected Officials
State Board Chairperson
Workforce Investment Board Chairpersons
Workforce Investment Board Directors
Regional Workforce Board Chairpersons
Regional Coordinators

FROM: Ronald L. Stiver *RLS*
Commissioner

DATE: April 24, 2006

SUBJECT: DWD Policy 2005-18
Awarding Severance Pay Using Federal Funds according to the
United States Office of Management and Budget Circulars A-87 and A-122

Purpose

This policy reiterates the parameters for the awarding of severance pay using federal funds such as funding from the Workforce Investment Act according to the above named federal circulars. This policy also denotes the Indiana Department of Workforce Development's position on the awarding of severance pay by Workforce Investment Boards.

Rescissions None

Content

Two United States Office of Management and Budget (OMB) circulars clearly denote the parameters for awarding severance pay using federal funding. OMB Circular A-87 details the Cost Principles for State, Local, and Indian Tribal Governments. OMB Circular A-122 details the Cost Principles for Non-Profit Organizations.

Cost Principles for Non-Profit Organizations, OMB Circular A-122 explains the following at:
7. Attachments, Attachment B - Selected Items of Cost, 8. Compensation for personal services,

k. Severance pay.

- (1) Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being

terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by

- a) law,
 - b) employer-employee agreement,
 - c) established policy that constitutes, in effect, an implied agreement on the organization's part, or
 - d) circumstances of the particular employment.
- (2) Costs of severance payments are divided into two categories as follows:
- a) Actual normal turnover severance payments shall be allocated to all activities; or, where the organization provides for a reserve for normal severances, such method will be acceptable if the charge to current operations is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the organization.
 - b) Abnormal or mass severance pay is of such a conjectural nature that measurement of costs by means of an accrual will not achieve equity to both parties. Thus, accruals for this purpose are not allowable. However, the Federal Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Thus, allowability will be considered on a case-by-case basis in the event or occurrence.
 - c) Costs incurred in certain severance pay packages (commonly known as "a golden parachute" payment) which are in an amount in excess of the normal severance pay paid by the organization to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the organization's assets are unallowable.

Cost Principles for State, Local, and Indian Tribal Governments, OMB Circular A-87, explains the following at Attachment B – Selected Items of Cost, 8. Compensation for personal services

g. Severance Pay

- (1) Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they as required by
 - (a) law,
 - (b) employer employee agreement, or
 - (c) established written policy.
- (2) Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.
- (3) Abnormal or mass severance pay will be considered on a case by case basis and is allowable only if approved by the cognizant Federal agency.

Since the Indiana Department of Workforce Development does not operate under indirect costs, (2) above, under A-87, would not apply.

If severance pay is being considered from federal funding, the amount should be "a reasonable amount" following the above guidance. If there was a contractual relationship, employer-employee agreement, established at the time of a person's hire that detailed possible severance, that contract would need to be within these federal regulation guidelines. An established written policy would be one in effect at the time the person was hired by the organization. Again, any established, organizational policy regarding severance pay would have to pass the same litmus test of being "reasonable." Otherwise, a non-profit organization or a state or local government could be penalized with disallowed costs. For instance, compensating a person with severance double the amount of that person's salary would be unreasonable.

Please especially note that giving a "golden parachute" payment because of a change in the management or ownership of a non-profit organization is not allowed. For example, if the person being compensated with severance pay leaves to join another similarly funded organization still within Indiana's workforce development system, that payment would not meet the standard.

Effective the day of this policy, the Indiana Department of Workforce Development expects that no new policies for severance will be established by Workforce Investment Boards that are dissolving on June 30, 2006.

Effective Date

This policy is backdated to December 31, 2005 because it reiterates what has been published in the United States Office of Management and Budget Circulars A-87 and A-122 for some time.

Ending Date

December 31, 2006

Ownership

Partner Services

Action

This policy should be shared with staff of the Workforce Investment Boards, Regional Workforce Boards and Regional Operators.

Contact Person

Betty Culley, Policy Analyst, Partner Services
Indiana Department of Workforce Development
10 North Senate Avenue
Indianapolis, IN 46204
Telephone: 317.233.2695
E-mail: bculley@dwd.IN.us